

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2016 and 2015



Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
December 31, 2016 and 2015

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Independent Auditor's Report

Board of Trustees
Medicine Lodge Memorial Hospital
Medicine Lodge, Kansas

We have audited the accompanying financial statements of Medicine Lodge Memorial Hospital, a component unit of the Medicine Lodge Township, Kansas, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise Medicine Lodge Memorial Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Medicine Lodge Memorial Hospital as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

BKD, LLP

Wichita, Kansas
May 26, 2017

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas

Balance Sheets

December 31, 2016 and 2015

Assets

	2016	2015
Current Assets		
Cash	\$ 390,910	\$ 583,948
Patient accounts receivable, net of allowance; 2016 - \$232,189, 2015 - \$197,619	944,420	990,717
Property and sales tax receivable	44,735	129,638
Estimated amounts due from third-party payers	448,959	300,000
Supplies	167,462	192,912
Prepaid expenses and other	70,735	81,882
Other receivables	34,353	44,943
Total current assets	<u>2,101,574</u>	<u>2,324,040</u>
Noncurrent Cash and Investments		
Designated by Board of Trustees	403,786	375,035
Restricted by donors for capital acquisitions and specific operating activities	100	-
Ranch land and mineral interests, at cost	89,078	89,078
	<u>492,964</u>	<u>464,113</u>
Capital Assets, Net	<u>9,735,969</u>	<u>10,475,635</u>
Total assets	<u><u>\$ 12,330,507</u></u>	<u><u>\$ 13,263,788</u></u>

Liabilities and Net Position

	2016	2015
Current Liabilities		
Current maturities of long-term debt	\$ 228,502	\$ 225,032
Accounts payable	244,055	268,156
Accrued expenses	399,122	469,582
Accrued bond interest	44,708	46,099
Total current liabilities	916,387	1,008,869
Long-term Debt	4,422,718	4,651,220
Total liabilities	5,339,105	5,660,089
Net Position		
Net investment in capital assets	5,084,749	5,599,383
Restricted - expendable for		
Specific operating activities	100	-
Unrestricted	1,906,553	2,004,316
Total net position	6,991,402	7,603,699
Total liabilities and net position	\$ 12,330,507	\$ 13,263,788

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Net patient service revenue, net of provision (credit) for uncollectible accounts; 2016 - \$167,669, 2015 - \$(47,465)	\$ 7,713,469	\$ 8,259,872
340B Drug Program	865,350	922,409
Other	<u>263,073</u>	<u>204,330</u>
Total operating revenues	<u>8,841,892</u>	<u>9,386,611</u>
Operating Expenses		
Salaries and wages	4,477,032	4,447,286
Employee benefits	1,043,655	1,023,695
Purchased services and professional fees	1,441,358	1,330,983
Supplies and other	2,169,514	2,407,639
Depreciation	<u>872,625</u>	<u>903,936</u>
Total operating expenses	<u>10,004,184</u>	<u>10,113,539</u>
Operating Loss	<u>(1,162,292)</u>	<u>(726,928)</u>
Nonoperating Revenues (Expenses)		
Noncapital appropriations - County and City	523,676	489,288
Investment income	24,787	36,089
Interest expense	(163,604)	(160,964)
Noncapital grants and gifts	133,650	116,902
Ranch income, net of expense	<u>31,486</u>	<u>27,912</u>
Total nonoperating revenues	<u>549,995</u>	<u>509,227</u>
Decrease in Net Position	(612,297)	(217,701)
Net Position, Beginning of Year	<u>7,603,699</u>	<u>7,821,400</u>
Net Position, End of Year	<u><u>\$ 6,991,402</u></u>	<u><u>\$ 7,603,699</u></u>

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 7,610,807	\$ 8,629,354
Payments to suppliers and contractors	(4,642,031)	(4,741,343)
Payments to employees	(4,548,883)	(4,444,036)
Other receipts, net	<u>1,139,013</u>	<u>1,143,957</u>
Net cash provided by (used in) operating activities	<u>(441,094)</u>	<u>587,932</u>
Noncapital Financing Activities		
Noncapital appropriations supporting operations	608,579	558,565
Noncapital grants and gifts	<u>133,650</u>	<u>116,902</u>
Net cash provided by noncapital financing activities	<u>742,229</u>	<u>675,467</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(225,032)	(199,483)
Interest payments on long-term debt	(163,604)	(160,964)
Purchases of capital assets	<u>(132,959)</u>	<u>(367,213)</u>
Net cash used in capital and related financing activities	<u>(521,595)</u>	<u>(727,660)</u>
Investing Activities		
Ranch operations	31,486	27,912
Investment income	<u>24,787</u>	<u>36,089</u>
Net cash provided by investing activities	<u>56,273</u>	<u>64,001</u>
Increase (Decrease) in Cash	(164,187)	599,740
Cash, Beginning of Year	<u>958,983</u>	<u>359,243</u>
Cash, End of Year	<u><u>\$ 794,796</u></u>	<u><u>\$ 958,983</u></u>
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 390,910	\$ 583,948
Noncurrent cash designated by Board of Trustees	403,786	375,035
Noncurrent cash restricted by donors	<u>100</u>	<u>-</u>
Total cash	<u><u>\$ 794,796</u></u>	<u><u>\$ 958,983</u></u>

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of Operating Loss to Net Cash		
Provided by (Used in) Operating Activities		
Operating loss	\$ (1,162,292)	\$ (726,928)
Depreciation	872,625	903,936
Provision (credit) for uncollectible accounts	167,669	(47,465)
Changes in operating assets and liabilities		
Patient accounts receivable, net	(121,372)	78,547
Estimated amounts due from and to third-party payers	(148,959)	338,400
Other receivables	10,590	17,218
Supplies	25,450	38,360
Prepaid expenses and other	11,147	(8,507)
Accounts payable and accrued expenses	<u>(95,952)</u>	<u>(5,629)</u>
Net cash provided by (used in) operating activities	<u>\$ (441,094)</u>	<u>\$ 587,932</u>
 Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	<u>\$ -</u>	<u>\$ 116,806</u>

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
Notes to Financial Statements
December 31, 2016 and 2015

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Medicine Lodge Memorial Hospital (Hospital) is owned by Medicine Lodge Township (Township) and governed by a Board of Trustees who are appointed by the Medicine Lodge City Council and the Board of Medicine Lodge Township and is a component unit of the Township. The Hospital provides short-term acute care services and outpatient services and operates a medical clinic.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific such as noncapital appropriations from the county and city, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016 and 2015, there were no cash equivalents.

Medicine Lodge Memorial Hospital
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Notes to Financial Statements
December 31, 2016 and 2015

Noncapital Appropriations – County and City

The Hospital received approximately 5% in both 2016 and 2015 of its financial support from noncapital appropriations derived from property and sales taxes. One hundred percent of these funds were used to support operations of the Hospital in both years.

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from noncapital appropriations from the county derived from property taxes is recognized in the year for which the taxes are levied.

Appropriations derived from sales tax revenue are recognized based on sales tax collected by the Township's retailers in the Hospital's accounting period.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters, except workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place within the plan to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for the services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Noncurrent Cash and Investments

As of December 31, 2016 and 2015, noncurrent cash and investments included assets held by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion use for other purposes. Noncurrent cash and investments also include assets restricted by donors and grantors.

Medicine Lodge Memorial Hospital
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Notes to Financial Statements
December 31, 2016 and 2015

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	20 years
Buildings	10-50 years
Fixed equipment	10-20 years
Moveable equipment	5-20 years

Compensated Absences

Hospital policies permit most employees to accumulate vacation leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted expendable.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Patient service revenue is recorded at established rates with contractual adjustments, charity care and other adjustments deducted to arrive at net patient service revenue before the provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Medicine Lodge Memorial Hospital
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Notes to Financial Statements

December 31, 2016 and 2015

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government entity, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Critical access hospitals (CAHs) are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare utilization plus 20%, limited to 100% of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recorded revenue of \$41,168 and \$130,840 under the Medicaid and Medicare physician programs, which is included in net patient service revenue in the statement of revenues, expenses and changes in net position for the years ended December 31, 2016 and 2015, respectively.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation. The reclassifications had no effect on the changes in financial position.

Medicine Lodge Memorial Hospital
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Notes to Financial Statements
December 31, 2016 and 2015

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. The Hospital is licensed as a CAH, and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audit thereof by the Medicare Administrative Contractor. Beginning April 1, 2013, a mandatory payment reduction, known as sequestration, of 2% went into effect. Under current legislation, sequestration is scheduled to last until 2025.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future.

Approximately 73% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for both the years ending December 31, 2016 and 2015. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined case rates and discounts from established charges.

Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kansas; bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2016 and 2015, none of the Hospital's bank balances of \$803,984 and \$1,008,041, respectively, were exposed to custodial credit risk.

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas

Notes to Financial Statements

December 31, 2016 and 2015

Summary of Carrying Values

The carrying values of deposits shown above are included in the balance sheets as follows:

	<u>2016</u>	<u>2015</u>
Carrying value		
Deposits	\$ 793,996	\$ 958,183
Petty cash	<u>800</u>	<u>800</u>
	<u>\$ 794,796</u>	<u>\$ 958,983</u>
Included in the following balance sheet captions		
Cash in current assets	\$ 390,910	\$ 583,948
Designated by Board of Trustees	403,786	375,035
Restricted by donors	<u>100</u>	<u>-</u>
	<u>\$ 794,796</u>	<u>\$ 958,983</u>

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of:

	<u>2016</u>	<u>2015</u>
Medicare	\$ 516,490	\$ 562,925
Medicaid	13,856	24,950
Blue Cross	113,406	131,425
Other third-party payers	137,275	135,144
Self-pay	<u>395,582</u>	<u>333,892</u>
	1,176,609	1,188,336
Less allowance for uncollectible accounts	<u>(232,189)</u>	<u>(197,619)</u>
	<u>\$ 944,420</u>	<u>\$ 990,717</u>

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas

Notes to Financial Statements
December 31, 2016 and 2015

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

2016					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 7,579	\$ -	\$ -	\$ -	\$ 7,579
Land improvements	231,999	-	-	-	231,999
Buildings	10,467,509	15,420	-	-	10,482,929
Fixed equipment	1,632,836	-	-	-	1,632,836
Major moveable equipment	2,494,207	117,539	97,000	-	2,514,746
	<u>14,834,130</u>	<u>132,959</u>	<u>97,000</u>	<u>-</u>	<u>14,870,089</u>
Less accumulated depreciation					
Land improvements	57,903	17,199	-	-	75,102
Buildings	1,901,244	568,189	-	-	2,469,433
Fixed equipment	602,388	87,164	-	-	689,552
Major moveable equipment	1,796,960	200,073	97,000	-	1,900,033
	<u>4,358,495</u>	<u>872,625</u>	<u>97,000</u>	<u>-</u>	<u>5,134,120</u>
Capital Assets, Net	<u>\$ 10,475,635</u>	<u>\$ (739,666)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,735,969</u>

2015					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 7,579	\$ -	\$ -	\$ -	\$ 7,579
Land improvements	244,137	-	12,138	-	231,999
Buildings	10,523,369	-	55,860	-	10,467,509
Fixed equipment	1,640,517	-	7,681	-	1,632,836
Major moveable equipment	2,327,550	227,136	60,479	-	2,494,207
	<u>14,743,152</u>	<u>227,136</u>	<u>136,158</u>	<u>-</u>	<u>14,834,130</u>
Less accumulated depreciation					
Land improvements	52,842	17,199	12,138	-	57,903
Buildings	1,389,209	567,895	55,860	-	1,901,244
Fixed equipment	522,904	87,165	7,681	-	602,388
Major moveable equipment	1,625,762	231,677	60,479	-	1,796,960
	<u>3,590,717</u>	<u>903,936</u>	<u>136,158</u>	<u>-</u>	<u>4,358,495</u>
Capital Assets, Net	<u>\$ 11,152,435</u>	<u>\$ (676,800)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,475,635</u>

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas

Notes to Financial Statements
December 31, 2016 and 2015

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and expenses included in current liabilities at December 31 consisted of:

	<u>2016</u>	<u>2015</u>
Payable to suppliers and contractors	\$ 244,055	\$ 268,156
Payable to employees (including payroll taxes and benefits)	<u>399,122</u>	<u>469,582</u>
	<u>\$ 643,177</u>	<u>\$ 737,738</u>

Note 7: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$800,000 of coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

Medicine Lodge Memorial Hospital
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Notes to Financial Statements
December 31, 2016 and 2015

Note 8: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31:

	2016				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Public Building Commission bonds payable - 2011	\$ 239,000	\$ -	\$ 18,000	\$ 221,000	\$ 18,750
USDA Hospital Refunding Revenue Bond Series 2014	4,382,533	-	121,432	4,261,101	125,530
Capital lease obligations	254,719	-	85,600	169,119	84,222
	<u>\$ 4,876,252</u>	<u>\$ -</u>	<u>\$ 225,032</u>	<u>\$ 4,651,220</u>	<u>\$ 228,502</u>

	2015				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Public Building Commission bonds payable - 2011	\$ 256,500	\$ -	\$ 17,500	\$ 239,000	\$ 18,000
USDA Hospital Refunding Revenue Bond Series 2014	4,500,000	-	117,467	4,382,533	121,432
Capital lease obligations	202,429	116,806	64,516	254,719	85,600
	<u>\$ 4,958,929</u>	<u>\$ 116,806</u>	<u>\$ 199,483</u>	<u>\$ 4,876,252</u>	<u>\$ 225,032</u>

Public Building Commission Bonds Payable – 2011

The Public Building Commission bonds payable consist of Barber County, Kansas Public Building Commission Revenue Bonds Series 2011 in the original amount of \$6,000,000 dated July 20, 2011, which bear interest at 3.0% to 4.0%. The bonds are payable in annual installments beginning September 1, 2012 through September 1, 2026. Semiannual interest only payments are due beginning March 1, 2012 through March 1, 2026. In connection with the issuance of the bonds, the Hospital has entered into a sublease with the County. Under the sublease, the Hospital is responsible for 5% of the total debt service on the bonds. The bonds are secured by a pledge of the gross revenues of the Hospital.

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
Notes to Financial Statements
December 31, 2016 and 2015

The Hospital's debt service requirements as of December 31, 2016, are as follows:

	Total to be Paid	Principal	Interest
Year Ending December 31,			
2017	\$ 27,040	\$ 18,750	\$ 8,290
2018	27,226	19,500	7,726
2019	27,196	20,250	6,946
2020	26,810	20,500	6,310
2021	26,990	21,500	5,490
2022 - 2026	<u>135,246</u>	<u>120,500</u>	<u>14,746</u>
	<u>\$ 270,508</u>	<u>\$ 221,000</u>	<u>\$ 49,508</u>

USDA Hospital Refunding Revenue Bond Series 2014

The USDA Hospital Refunding Revenue Bond Series 2014 bond payable was issued September 15, 2014, in the amount of \$4,500,000 and bears interest at 3.375%. Principal and interest payments began September 15, 2015, and extend through September 15, 2039.

The Hospital's debt service requirements for the USDA bond as of December 31, 2016, are as follows:

	Total to be Paid	Principal	Interest
Year Ending December 31,			
2017	\$ 269,342	\$ 125,530	\$ 143,812
2018	269,343	129,767	139,576
2019	269,342	134,146	135,196
2020	269,342	138,674	130,668
2021	269,342	143,354	125,988
2022 - 2026	1,346,711	792,692	554,019
2027 - 2031	1,346,710	935,797	410,913
2032 - 2036	1,346,711	1,104,738	241,973
2037 - 2039	<u>808,023</u>	<u>756,403</u>	<u>51,620</u>
	<u>\$ 6,194,866</u>	<u>\$ 4,261,101</u>	<u>\$ 1,933,765</u>

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Notes to Financial Statements
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Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2016 and 2015, totaled \$122,006 and \$157,997, net of accumulated depreciation of \$417,462 and \$381,471, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates from 3.75% to 6.96%, together with the present value of the future minimum lease payments as of December 31:

Year Ending December 31,	
2017	\$ 89,105
2018	31,407
2019	29,419
2020	25,232
2021	4,295
Total minimum lease payments	<u>179,458</u>
Less amounts representing interest	<u>10,339</u>
Present value of future minimum lease payments	<u>\$ 169,119</u>

Note 9: Pension Plan

The Hospital maintains a defined contribution pension plan (401(a) plan) for all eligible employees. Eligibility is established by all employees who have completed one year of service and are at least 21 years of age and have been paid for 1,000 hours of service for the year. Employer contributions are computed at the rate of 4.5% of annual compensation for eligible employees. The employer also makes supplemental contributions up to an additional 3% of the annual compensation of eligible employees based upon the number of years of continuous service. Benefits are funded by a money purchase annuity with an insurance company. The plan is funded for past service on an installment basis over the remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Contributions actually made by plan members and the Hospital aggregated \$137,806 and \$236,682 during 2016 and \$133,428 and \$233,794 during 2015, respectively. Benefits start vesting immediately with 100% vesting after six years of service. In case of death or disability, all funds contributed by the Hospital are 100% vested. In the case of termination of an employee prior to retirement, all funds contributed by the Hospital which are not vested will be returned to the Hospital.

The Hospital provides one additional defined contribution plan (457 plan). The Hospital does not make contributions to the 457 plan. Employee contributions to the plan are computed at the rate of 3.5% of the annual compensation of the eligible employees. Contributions made by plan members totaled \$90,984 and \$97,918 during 2016 and 2015, respectively. The plan year begins on January 1 and ends December 31.

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Note 10: Management Agreement

The Board of Trustees of the Hospital has a management agreement with Great Plains Health Alliance, Inc. (GPHA), whereby GPHA agreed to administer operations of the Hospital. The terms of the agreements vary from one to seven years and can be cancelled with 60 days' notice. The agreements can be renewed after the initial term has expired on a year-to-year basis. Fees incurred for the various services provided by GPHA to the Hospital for the years ended December 31, 2016 and 2015, were \$535,050 and \$610,943, respectively. Amounts due to GPHA at December 31, 2016 and 2015, totaled \$52,810 and \$38,275, respectively.

Note 11: 340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of \$865,350 and \$922,409 for the years ending December 31, 2016 and 2015, respectively. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.